



March 29, 2019

***Via electronic submission***

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551  
RIN 7100-AF29 [Docket No. R-1638]

Robert E. Feldman, Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429  
RIN 3064-AE91

Legislative and Regulatory Activities Division  
Office of the Comptroller of the Currency  
400 7<sup>th</sup> Street SW, Suite 3E-218  
Washington, DC 20219  
RIN 1557-AE59 [Docket ID OCC-2018-0040]

Re: Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations

Ladies and Gentlemen,

Pacific Coast Bankers' Bank ("PCBB") welcomes the opportunity to submit this letter to the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (collectively, the "Agencies") in connection with the Agencies' Notice of Proposed Rulemaking entitled, *Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations* (the "Proposed Rule").

PCBB is one of the nation's leading bankers' banks providing correspondent and other banking services to hundreds of community-based financial institutions ("community banks") throughout the United States. We offer our clients a variety of lending, advisory, hedging and cash management services that enable community banks to better serve their customers, compete with larger financial institutions, improve profitability, comply with regulations, and manage risk.

## General Comments and Community Banks

In support of our community bank customers, PCBB appreciates the Agencies' effort to establish a capital structure tailored to community banks and the simplified reporting under the Proposed Rule. PCBB generally supports many of the aspects of the Proposed Rule associated with the Community Bank Leverage Ratio (CBLR) but does request that the Agencies consider:

- ***Making the CBLR optional at all times.*** The Agencies should reinforce the optionality described within the proposal to avoid unintended consequences of on-site examination teams who may unnecessarily require community banks to hold higher capital levels and/or apply the rule inconsistently from region to region and Agency to Agency. Adding clarity that optionality is a fundamental feature of the Proposed Rule should eliminate these potential issues.
- ***Calibrating the CBLR to 8 percent.*** The proposed level of 9 percent is too high and would represent a significant increase when compared with the current leverage and risk-based capital requirements for well capitalized banks and instead should be established at 8 percent in order to increase adoption among community banks.
- ***Defining the numerator of the CBLR as Tier 1 capital.*** This would reduce regulatory burdens in transitioning into and out of the CBLR Framework. The use of a Tier 1 leverage ratio will preserve the ability of bank supervisors to compare capital adequacy across community banks within the CBLR Framework and those outside the Framework. Moreover, relying on Tier 1 capital within the CBLR Framework will avoid necessitating revisions to state banking laws that reference Tier 1 capital, including but not limited to state law lending limits. Using Tier 1 leverage would also continue to allow bankers to include certain instruments, such as TruPs, in their capital calculations.

## Specific Comment and PCBB

PCBB would also like to encourage the Agencies to consider a specific issue related to the handling of pass through reserve balances<sup>1</sup> and the deduction of these balances in the calculation of total consolidated assets under the Proposed Rule.

Under the Proposed Rule, the CBLR denominator would be average total consolidated assets as currently calculated in accordance with Call Report instructions, less several deductions. The mechanism for deductions exists in the Proposed Rule and the pass through reserve balances are

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<sup>1</sup> A depository institution that is required to maintain reserve balances with the Federal Reserve may choose either to satisfy its reserve balance requirement directly with its Reserve Bank or to pass its reserve balance requirement through a correspondent bank; thus the term pass-through reserve balances. Through a tri-party agreement signed amongst the Federal Reserve, PCBB and the respondent bank, PCBB maintains a master account that is held at the Federal Reserve for use in passing through these reserve balances on behalf of respondents. PCBB and the Federal Reserve ensure that the proper amount of reserves is being maintained on behalf of respondents that use this service.

not yet contemplated under the deductions. Respondent banks are required to hold leverage capital for these reserves, so capital has already been allocated to these assets. Requiring both the respondent and the correspondent to hold leverage capital for these same reserves is unnecessary and punitive on the correspondent bank.

These pass through reserve balances are covered under a tri-party agreement between the Federal Reserve, the respondent community bank and the correspondent bank such as PCBB. Under the Proposed Rule, correspondent banks such as PCBB are required to hold capital related to these reserve balances even though correspondent banks such as PCBB are acting only as an agent on behalf of respondent clients. There are two important factors which are instructive to supporting this position:

- ***Pass through Balances Double-Counted by Respondents and PCBB***  
Respondents that pass reserve balances through a correspondent bank, such as PCBB, include these balances in total assets on Schedule RC (Balance Sheet; Cash and Balances Due From Depository Institutions). Likewise, PCBB records these same balances on its Schedule RC. The respondent bank owns these funds, not the correspondent bank such as PCBB, which is only acting as an agent in performing this valuable service to assist community bank respondent clients.
- ***Pass through Reserve Balances are excluded from Total Assets on Call Report Schedule RC-O (Other Data for Deposit Insurance and FICO Assessments)***  
Schedule RC-O is used in calculating FDIC insurance assessments. Pass through reserve balances are specifically defined and are an allowable exclusion in the average consolidated total assets calculation on Schedule RC-O.

PCBB asks that the Agencies consider allowing a deduction for pass through reserve balances held with the Federal Reserve from the denominator of the CBLR calculation (Average Total Consolidated Assets). Allowing this deduction will refine this important calculation for correspondent banks such as PCBB to more closely align the capital required based upon the risk of the assets correspondent banks such as PCBB hold. Allowing a deduction for these balances will not unduly discourage correspondent banks such as PCBB from performing the important function of assisting our community bank clients with holding proper reserve balances with the Federal Reserve.

Thank you again for the opportunity to comment on this important matter.

Best regards,

Steven Brown

Steven Brown  
President & CEO